

## Message Text

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ACTION TRSE-00

INFO OCT-01 EA-10 NEA-10 ISO-00 IO-13 L-03 H-01 PA-01

SP-02 ICA-11 AID-05 EB-08 NSC-05 SS-15 STR-07

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-10

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /117 W

-----108058 200541Z /10

P R 200246Z JUL 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 6383

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

AMEMBASSY COLOMBO

AMEMBASSY DACCA

AMCONSUL HONG KONG

AMEMBASSY ISLAMABAD

AMEMBASSY JAKARTA

AMEMBASSY KABUL

AMEMBASSY KATHMANDU

AMEMBASSY MANILA

AMEMBASSY NEW DELHI

AMEMBASSY PORT MORESBY

AMEMBASSY RANGOON

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY SUVA

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMEMBASSY VIENTIANE

AMEMBASSY WELLINGTON

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E.O.11652: N/A

TAGS: EGEN, ETRD, BEXP, MY

SUBJECT: US PROCUREMENT FROM ASIAN DEVELOPMENT BANK

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REF: STAE 155300

1. SUMMARY: AFTER DISCUSSING MATTER WITH SEVERAL SOURCES, IT APPEARS THAT SITUATION FACING U.S. FIRMS SEEKING ADB PROJECTS IN MALAYSIA IS SIMILAR TO THAT REPORTED BY OTHER POSTS. THIS IS PARTICULARLY TRUE

FOR CONSTRUCTION ENGINEERING AND MANUFACTURING FIRMS WHOSE POOR SUCCESS RATE SEEMS TO BE BASED ON THEIR LACK OF PRICE COMPETITIVENESS AND FLEXIBILITY. AN ADDITIONAL AREA OF DIFFICULTY LIES IN THE PREPARATION OF PRE-FEASIBILITY STUDIES WHICH ARE OFTEN UNDERTAKEN BEFORE PROJECTS REACH THE ADB AND ARE OFTEN FINANCED BY A GRANT FROM THE HOST COUNTRIES OF OUR MAJOR COMPETITORS. A FURTHER PROBLEM IS THAT U.S. FIRMS CONSISTENTLY COME IN WELL OVER THE NECESSARY SPECIFICATIONS ON ADB PROJECTS AND SEEM TO LACK FLEXIBILITY IN THIS AREA. A FINAL DIFFICULTY IS THAT U.S. TAX LEGISLATIVE CHANGES SEEM TO HAVE FORCED SEVERAL AMERICAN MEMBERS OF THE ADB STAFF TO LEAVE AND THEY ARE BEING REPLACED BY NON-AMERICANS. DESPITE THESE PROBLEMS, EMBASSY DOES NOT BELIEVE THAT LIMITING EXAMINATION TO ADB PROCUREMENT IS THE WAY TO PROCEED. MOST, IF NOT ALL, OF THE DIFFICULTIES FACING U.S. EXPORTERS AND CAN ONLY BE RESOLVED THROUGH A WIDER ATTACK ON THE FUNDAMENTAL CAUSES OF POOR U.S. EXPORT PERFORMANCE. END SUMMARY.

2. WE HAVE REVIEWED WITH CONSIDERABLE INTEREST THE COMPREHENSIVE REPORTING SENT IN BY OTHER POSTS ON THIS SUBJECT AND HAVE GENERALLY CONCLUDED THAT THE SITUATION DESCRIBED IN OTHER COUNTRIES IN THE REGION HOLDS TRUE FOR MALAYSIA. IN OUR EXAMINATION OF THIS QUESTION, WW TOUCHED BASE WITH BOTH GOM PROCUREMENT OFFICERS AND LIMITED OFFICIAL USE

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AMERICAN COMPANIES ACTIVELY ENGAGED IN ADB PROJECTS. A GENERAL CONCLUSION WE REACHED WAS THAT THE POOR RECORD OF AMERICAN FIRMS IN OBTAINING ADB PROJECTS DOES NOT HOLD TRUE FOR CONSULTING ENGINEERS. AMERICAN CONSULTING ENGINEERS HAVE DONE BETTER ON ADB PROJECTS IN MALAYSIA THAN THOSE FROM ANY OTHER COUNTRY. HOWEVER, THE RECORD OF AMERICAN MANUFACTURERS AND CONSTRUCTION ENGINEERING FIRMS IS WOEFUL AND PROBABLY REPRESENTS A SMALLER PERCENTAGE OF TOTAL ADB PROCUREMENT THAN THAT GIVEN IN REFTEL.

3. OUR SOURCES HAVE INDICATED THAT ONE OF THE PRIMARY FACTORS AFFECTING THE SALES OF US GOODS AND SERVICES ON ADB PROJECTS IN MALAYSIA IS THE LACK OF COMPETITIVENESS SHOWN BY AMERICAN COMPANIES. A GOOD EXAMPLE WAS GIVEN IN A RECENT TENDER TO SUPPLY TURBINE GENERATORS FOR A POWER STATION. THE WINNING JAPANESE FIRM, C. ITOH, WON THE TENDER WITH AN OFFER OF US\$21 MILLION. THE NEXT LOWEST BIDDER WAS MITSUBISHI WHICH OFFERED A PRICE OF US\$23.5 MILLION. THE ONLY US BIDDER WAS GENERAL ELECTRIC WHOSE BID WAS US\$33.3 MILLION. IT SHOULD BE NOTED THAT THE US BID WAS ALMOST 59 PERCENT HIGHER THAN THAT OF THE WINNING JAPANESE BID. WE STRONGLY SUSPECT THAT THIS MAY HAVE BEEN AN EXAMPLE

OF PREDATORY PRICING ON THE PART OF C. ITOH AND ANY LOSSES WILL NO DOUBT BE RECOUPED THROUGH SPARE PARTS PRICING. BE THAT AS IT MAY, IT REMAINS TRUE THAT THE AMERICAN COMPANIES SHOW VERY LIMITED FLEXIBILITY IN TERMS OF THE IMPORTANT PRICING QUESTION. WE HAVE ALSO NOTED THAT OUR FOREIGN COMPETITORS, GENERALLY SPEAKING, TEND TO PURSUE PROJECTS WITH CONSIDERABLY MORE INTENSITY THAN AMERICAN FIRMS. ONLY RARELY DO WE SEE AN AMERICAN REPRESENTATIVE OF A MANUFACTURING COMPANY WHO COMES EARLY AND STAYS LATE TO MAKE SURE THAT HIS COMPANY'S VIEWS ARE WELL REPRESENTED IN THE FINAL SELECTION PROCESS. NUMEROUS COMPANIES, INCLUDING AMERICAN CONSULTING ENGINEERING FIRMS, HAVE COMPLAINED OF THE LACK OF INTEREST AND THE ALMOST TOTAL UNRESPONSIVENESS OF MANY AMERICAN MANUFACTURERS. THIS IS ESPECIALLY TRUE OF MEDIUM AND SMALL SIZED COMPANIES. A GOOD LIMITED OFFICIAL USE

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EXAMPLE OF THIS IS FOUND IN THE PENANG AIRPORT PROJECT WHERE THE AMERICAN FIRMS HANDLING THE ENGINEERING SUPERVISION PHASE TOLD US THAT US FIRMS SHOWED LITTLE OR NO INTEREST IN BIDDING ON THE \$20 MILLION PROJECT. FINALLY, IT IS QUITE CLEAR THAT MANY ADB PROJECTS ARE SIMPLY TOO SMALL TO EXCITE THE INTEREST AND ATTENTION OF AMERICAN MANUFACTURING AND ENGINEERING FIRMS.

4. IT IS IMPORTANT TO REALIZE THAT THERE ARE OFTEN CERTAIN INHERENT DIFFICULTIES WITH ADB PROJECTS WHICH CREATE PROBLEMS FOR AN AMERICAN COMPANY. ONE THE MOST IMPORTANT OF THESE IS IN THE AREA OF THE INITIAL PROJECT DEVELOPMENT, WHICH QUITE OFTEN HAPPENS BEFORE THE PROJECT EVER REACHED THE ADB FOR CONSIDERATION. MANY COUNTRIES, ESPECIALLY THE JAPANESE AND EUROPEANS, WILL FINANCE PREFEASIBILITY STUDIES ON A GRANT BASIS. THESE STUDIES ARE GENERALLY INEXPENSIVE, RANGING IN COST FROM PERHAPS \$100,000 TO \$250,000. THEY DO, HOWEVER, GUARANTEE THAT A FIRM FROM THE FINANCING COUNTRY, FOR EXAMPLE JAPAN, WILL HAVE

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SP-02 ICA-11 AID-05 EB-08 NSC-05 SS-15 STR-07

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-10

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /117 W

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC PRIORITY 6384

INFO AMEMBASSY BANGKOK

AMEMBASSY CANBERRA

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AMEMBASSY RANGOON

AMEMBASSY SEOUL

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THE FIRST INPUT ON A PROJECT. WE WERE TOLD THAT QUITE OFTEN  
AS A MATTER OF POLICY, THESE FIRMS RECEIVED SOME PREFERENTIAL  
CONSIDERATION IN TERMS OF SELECTION FOR THE FEASIBILITY  
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STUDY CONDUCTED WITH ADB FUNDS WHICH RESULTS FROM THE PRE-  
FEASIBILITY STUDY. THUS, LONG BEFORE THE MANUFACTURER EVER SEES  
THE TENDER, OUR FOREIGN COMPETITORS HAVE HAD A HAND IN THE  
DESIGNING OF THE SPECIFICATIONS FOR THE PROJECT. THIS HAS QUITE  
CLEARLY WORKED TO THE DISADVANTAGE OF AMERICAN MANUFACTURERS.  
A SECOND REASON, WHICH SEEMS TO BE INHERENT IN THE ATTITUDE OF AMERIC  
AN  
FIRMS, IS THE OVER SPECIFICATION OF PRODUCT. QUITE OFTEN  
US FIRMS OFFER A CADILLAC, AT CADILLAC PRICES, WHEN WHAT IS  
WANTED IS A CHEVROLET. THEY OFTEN SEEM TO COMPLETELY LACK  
THE FLEXIBILITY ON SPECIFICATION ENJOYED BY THE FOREIGN COMPETITORS.  
PERHAPS SOME OF THIS DIFFICULTY COULD BE ALLEVIATED  
BY INVESTIGATING SMALLER US COMPANIES WITH A LESS SOPHISTICATED  
PRODUCT WHICH MIGHT MATCH BETTER WITH THE MARKETS GENERALLY  
FOUND IN SOUTH-EAST ASIA.

5. OUR PRIVATE SECTOR SOURCES CONSISTENTLY RAISED A MATTER OF GREAT CONCERN TO THEM WITH RESPECT TO THE STAFFING OF THE ADB ITSELF. THEY HAVE NOTED WITH DISMAY THAT US TAX LEGISLATION SEEMS TO BE FORCING A NUMBER OF US NATIONALS TO LEAVE THE STAFF OF THE ASIAN DEVELOPMENT BANK. SPECIFICALLY MENTIONED WERE JAY CARTER, LEONARD SCHIFFMAN AND AL HERON. ONLY CARTE IS BEING REPLACED BY AN AMERICAN. SCHIEFMAN, WHO HANDLES THE IMPORTANT AREA OF TRANSPORT INFRASTRUCTURE, IS BEING REPLACED BY A JAPANESE AND HERON, WHO HANDLES THE EQUALLY IMPORTANT ELECTRIC POWER WORK, IS BEING REPLACED BY AN INDIAN. PERHAPS SOME INVESTIGATION COULD BE DONE ON THE STAFFING PATTERN OF THE ADB WITH AN EYE TO EXPANDING THE AMERICAN STAFF RESIDENT HTERE. IT IS GENERALLY FET BY AMERICAN COMPANIES THAT THE INDIANS AND THE JAPANESE WHO NOW DOMINATE THE ADB'S WORKING LEVEL AR GENERALLY UNSYMPATHETIC TO AMERICAN FIRMS.

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6. THE MAJOR QUESTION FACING ALL OF US IS WHAT MIGHT BE DONE TO CHANGE THE SITUATION. WE OFFER THE FOLLOWING THOUGHTS AND SUGGESTIONS. IT IS CRITICALLY IMPORTANT THAT WE ATTEMPT TO ADDRESS A NUMBER OF THE SSERIOUS UNDERLYING PROBLEMS WHICH LIMIT AMERICAN COMPETITIVENESS ON A WORLD-WIDE BASIS. FIRST AMONG THESE WOULD BE TO DEVOTE SERIOUS, HIGH-LEVEL ATTENTION TO THOSE US GOVERNMENT POLICIES THAT CURTAIL THE ACTIVITIES OF US EXPORTERS. AMONG THESE ARE TAX POLICIES, UNDERTAINITIES ABOUT DISC, EXPORT FINANCING, AND A GENERAL FEELING THAT THE US GOVERNMENT HINDERS RATHER THAN SUPPORTS US EXPORTS. IN A SECOND AREA, WE QUITE CLEALY NEED TO ENCOURAGE THE EARLIER INVOLVEMENT OF AMERICAN ENGINEERING FIRMS IN PROJECT DEVELOPMENT. WE ALSO BELIEVE THAT SOME CONSIDERATION SHOULD BE GIVEN TO FINDING A MEANS OF PROVIDNING SEED MONEY, ON A GRANT BASIS FOR PREFEASIBILITY STUDIES IN DEVELOPING COUNRTIRES. THIS WOULD ENABLE AMERICAN FIRMS NOT ONLY TO HAVE A HAND IN DEVELOPING THE SPECIFICATIONS FOR THESE PROJECTS BUT ALSO FOR EXTENDING THEIR CONTACTS AT THE WORKING LEVEL OF THE MINISTRY INVOLVED IN THE DEVELOPMENT EFFORT. IN A THIRD AREA, WE BELIEVE SOME CONSIDERATION SHOULD BE GIVEN TO DEVELOPING A POLICY SPECIFICALL Y DESIGNED TO ENCOURAGE AND EXPAND THE ROLE FOR EXISTING AND NEW AMERICAN TRADING COMPANIES. IT IS OBVIOUS FOR THOSE OF US HERE IN MALAYSIA THAT THE JAPANESE AND EUROPEAN TRADING COMPANIES ARE A CRITICAL FORCE INPUTTING TOGETHER PACKAGES FOR PRESENTATION TO THE VARIOUS MINISTRIES. THE VIRTUAL NON-EXISTANCE OF SERIOUS US TRADING COMPANIES CLEARLY WORKS AGAINST OUR COMMERCIAL INTERESTS. WE ALSO BELIEVE THAT A GREALY EXPANDED COMMERCE DEPARTMENT EFFORT IS NECESSARY TO GET THE MESSAGE ACROSS TO AMERICAN MANUFACTURERES THAT A SIZEABLE MARKET EXISTS BEYOND THE

CONTINENTAL LIMITS OF THE UNITED STATES. FINALLY, WE URGE THAT  
CONSIDERATION BE GIVEN TO PLACING A PERMANENT COMMERCIAL OFFICER  
WITH REGIONAL RESPONSIBILITIES ON THE STAFF OF THE US DELEGATION  
TO THE ASIAN DEVELOPMENT BANK. WE BELIEVE THAT SUCH AN OFFICER SHOULD  
ALSO HAVE THE RESPONSIBILITY FOR IBRD AND OTHER TYPES OF MAJOR  
PROJECTS IN THE ASIAN REGION AND SHOULD NOT SPLIT HIS TIME  
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BETWEEN THE  
EMBASSY IN MANILA AND THE ADB.  
MILLER

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## Message Attributes

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**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Draft Date:** 20 jul 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
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**Errors:** N/A  
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**Status:** NATIVE  
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**TAGS:** EGEN, ETRD, BEXP, MY, ADB  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/5e6da66f-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
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